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I.C.C. DOCKET NO. 01-6050

Exhibit No. 2.00

Witness

Stuff

Date

4-19-01

Reporter

T. G.

Docket No. 01-0050
ICC Staff Exhibit 2.00

DIRECT TESTIMONY

of

RAYMOND E. PILAPIL

WATER DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

UTILITIES, INC.

WESTLAKE UTILITIES, INC.

WESTLAKE UTILITIES SERVICE COMPANY

DOCKET NO. 01-0050

MARCH 30, 2001

1 **Q. Please state your name and business address.**

2 A. My name is Raymond E. Pilapil. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois, 62701.

4
5 **Q. What is your present position and its responsibilities?**

6 A. I am presently employed as the Manager of the Water Department in the
7 Financial Analysis Division of the Illinois Commerce Commission
8 (Commission). My responsibilities include assisting the Division Director,
9 Executive Director, and the Chairman and Commissioners in determining
10 and achieving the Commission's goals and objectives related to water and
11 sewer issues by developing, implementing, and litigating policy proposals
12 that address current and future regulatory issues and selecting action
13 plans to implement policy. In addition, I am responsible for the overall
14 management of the Water Department including supervision of
15 Department Staff and reviewing certificate cases, rate cases, tariff filings,
16 mergers and reorganizations, and other issues pertaining to water and
17 sewer utilities regulated by the Commission.

18
19 **Q. Please describe your professional experience in the regulatory field.**

20 A. I had been employed by the Commission since March 1, 2000 as an
21 Economic Analyst IV until my promotion to the Water Department

22 Manager. As an Economic Analyst IV, I was responsible for reviewing
23 and analyzing tariff filings related to rules and regulations, conducting
24 comprehensive compliance inspections, evaluating and performing cost of
25 service studies and rate design, and presenting expert witness testimony
26 at Commission hearings for investor owned water and sewer utilities.

27
28 Prior to this time I worked at the Illinois Environmental Protection Agency,
29 Division of Air Pollution, Permit Section for ten years as a Public Service
30 Administrator (PSA), Leadworker, and Environmental Protection Engineer
31 I, II, and III. My responsibilities as a PSA included managing a unit of ten
32 engineers in the review and issuance of Emission Reduction Market
33 System applications, Construction Permits, Federally Enforceable State
34 Operating Permits, and Clean Air Act Program Permits under Title V of
35 the 1990 amendments to the federal Clean Air Act.

36
37 **Q. Are you a member of any professional organizations?**

38 A. I am a member of the American Water Works Association and the Illinois
39 Section of the American Water Works Association.

40
41 **Q. What is your educational background?**

42 A. I received a Bachelor of Science Degree in Ceramic Engineering from the
43 University of Illinois at Urbana-Champaign in 1989.

44

45 **Q. What is the purpose of these proceedings?**

46 A. Utilities, Inc. (UI), Westlake Utilities, Inc. (WUI), and Westlake Utility
47 Service Company (WUSC) have petitioned the Commission for WUI to
48 purchase WUSC's water and sewer assets and merge WUSC into WUI.
49 WUI also seeks approval of an affiliate agreement with Water Service
50 Corporation (WSC), a subsidiary of UI.

51

52 **Q. What is the purpose of your testimony?**

53 A. The purpose of my testimony is to submit my analysis of: (1) the
54 reasonableness of the merger of WUI and WUSC, (2) the proposed rates,
55 rules, and conditions of service, and (3) the affiliate agreement between
56 WUI and WSC.

57

58 **Q. Are you familiar with the testimony and exhibits presented by WUI's**
59 **witness Ms. Erin L. Nicholas?**

60 A. Yes, I have personally reviewed the testimony and exhibits presented by
61 Ms. Nicholas.

62

63 **Q. Has WUI demonstrated that approval of the affiliate agreement with**
64 **WSC is in the "public interest" for the customers in the WUSC**

65 **service area, as required by Section 7-101(3) of the Public Utilities**
66 **Act (Act)?**

67 Yes, it has. As Ms. Nicholas describes in her Direct Testimony, WSC
68 provides the "centralized billing, accounting, data processing,
69 engineering, management, and regulatory services for the greater than
70 350 water and wastewater systems supported by the approximately 76
71 operating companies, held by UI, including WUI. One of the primary
72 benefits of the WSC agreement will be WUI's access to a large pool of
73 human resources from which to draw upon" (Nicholas, page 6). Approval
74 of the agreement will contribute to increased operational expertise and
75 economies of scale for WUI.

76
77 **Q. Do you agree with Ms. Nicholas that WUI's affiliate agreement with**
78 **WSC is in the "public interest" for customers in the WUSC service**
79 **area?**

80 Yes, I do. In dealing with smaller utilities, the Water Department has
81 found that some of the smaller utilities have water quality problems,
82 inadequate service, and/or financial instability. These problems usually
83 result from the owners inability to raise necessary funds to make capital
84 improvements or large repairs to the water distribution system or sewage
85 treatment plant. In some instances, owners are required to utilize their

86 homes as collateral to raise necessary funds for the capital improvements
87 from bank institutions.

88
89 WUI's acquisition of WUSC through a reorganization offers customers
90 several advantages. First, as a result of the reorganization, customers
91 in the service area will be provided with a higher level of technical
92 expertise and resources to meet the changing environmental regulations
93 of the water industry. Second, the reorganization will result in long term
94 savings to customers. These savings are achieved through better
95 economies of scale and operating efficiencies associated with spreading
96 expenses, such as management, operators and chemicals, over a wider
97 customer base. Third, the reorganization will allow the resulting larger
98 utility easier access to the capital needed to make improvements at a
99 lower cost of debt, than a smaller utility often incurs.

100
101 Since WUI's affiliation with WSC contributes to increased operational
102 expertise and economies of scale, in my opinion, approval of these
103 contracts for affiliation are in the "public interest".

104
105 **Q. Do you agree with WUI that "the proposed reorganization will not**
106 **diminish the utility's ability to provide adequate, reliable, efficient,**

107 **safe and least cost public utility service” to its customers, as**
108 **required by Subsection 7-204(b)(1) of the Act?**

109 A. Yes, I do. The Joint Petition states, “the proposed reorganization will not
110 diminish Westlake Utilities, Inc.’s ability to provide adequate, reliable,
111 efficient, safe and least-cost public utility services” (Joint Petition, page
112 5). In addition, Ms. Nicholas indicates that UI, the parent company of
113 WUI, has 35 years of water and sewer experience, currently owning 76
114 operating companies throughout 16 states (Nicholas, page 2) and that
115 WSC provides the “centralized billing, accounting, data processing,
116 engineering, management, and regulatory services for the greater than
117 350 water and wastewater systems supported by the approximately 76
118 operating companies, held by UI” (Nicholas, page 6). Given WUI’s
119 affiliation with UI and WSC, I believe the expertise is there to meet the
120 daily challenges of adequacy, reliability, efficiency, and safety.

121
122 For the above reasons and considering the ongoing working experience
123 of the Water Department with Utilities, Inc.’s other operating utilities
124 regulated by the Commission, I find no reason to dispute WUI’s statement
125 regarding its “ability to provide adequate, reliable, efficient, safe and
126 least-cost public utility services.”

128 **Q. Can you further explain how WUI demonstrates that, following the**
129 **proposed reorganization they will achieve the “least-cost” means of**
130 **providing water and sewer service to the customers in the service**
131 **area, as required by Subsection 7-204(b)(1) and 8-406(b)(1) of the**
132 **Act?**

133 **A. Yes, I can. Ms. Nicholas discusses the benefits to WUSC’s customers**
134 **from WUI’s affiliation with UI, the parent company. She states that UI**
135 **provides water and sewer service to approximately 233,000 customers,**
136 **resulting in significant operational economies of scale and that WUI’s**
137 **customers will benefit from these economies of scale (Nicholas, page 5).**
138 **She further states that UI has “national purchasing power on expenditures**
139 **such as insurance, vehicles and meters” and “has access to capital for**
140 **improvements and expansion at reasonable rates” (Nicholas, page 9). I**
141 **agree with Ms. Nicholas. In my opinion, the most cost efficient method for**
142 **providing water or sewer service to customers is through a larger utility,**
143 **such as UI, rather than a smaller utility like WUSC.**

144
145 **Ms. Nicholas states that one of the primary benefits of WUI’s affiliation**
146 **with WSC “will be WUI’s access to a large pool of human resources from**
147 **which to draw upon [...] such as construction, engineering, operations,**
148 **accounting, regulation, data processing, customer service, etc.”**

149 (Nicholas, page 7). She further states that WSC does not charge a
150 management fee or profit for these services whereby cost are typically
151 assigned to the company that benefits from the service. In these cases,
152 where costs cannot be identified to a specific company, the cost is
153 allocated to all the companies based upon the number of customers
154 (Nicholas, page 7).

155
156 As a result of WUI's affiliation with UI and WSC, I agree that WUI's will be
157 able to provide the "least-cost" means of water and sewer service to the
158 customers in the service area.

159
160 **Q. If the reorganization is approved, will WUI remain "subject to all**
161 **applicable laws, regulations, rules, decisions and policies governing**
162 **the regulation of Illinois public utilities", as required by Subsection**
163 **7-204(b)(5) of the Act?**

164 **A.** Yes, WUI will continue to be under the jurisdiction of the Commission and
165 remain subject to all applicable laws, regulations, rules, decisions and
166 policies governing the regulation of public utilities.

168 **Q. Has WUI demonstrated that “the proposed reorganization is not**
169 **likely to result in any adverse rate impacts on retail customers”, as**
170 **required by Subsection 7-204(b)(7) of the Act?**

171 **A.** Yes, it has. Ms. Nicholas has indicated that WUI will provide water and
172 sewer service to WUSC’s existing service area under the current water
173 and sewer rates (Nicholas, page 10). The current rates being charged to
174 the customers in the WUSC service area were developed by the
175 Westlake Village Master Homeowners Association (WVMHA). She
176 further states that WUI “agreed to review the rates within two years
177 following approval of the proposed transfer, after WUI gains an accurate
178 indication of the annualized costs of providing safe and adequate service
179 within this territory” (Nicholas, page 10). Since WUI plans to operate
180 under the current rates, I see no adverse rate impacts on the customers.

181
182 I agree with Ms. Nicholas that the customers will experience some future
183 rate increases. As improvements are made to the water and sewage
184 systems and expenses change, rates will have to be reevaluated in future
185 rate cases. In my opinion, rate increases will occur regardless of whether
186 ownership remains under WUSC or is transferred to WUI.

187
188 **Q. Do you agree with WUI's proposed rates?**

189 A. Currently, WUSC does not have an approved tariff on file at the
190 Commission. WUI's ELN Exhibit 3.00, shows the current WVMHA rates
191 WUI plans to file for this service area. I agree with all of WUI's proposed
192 rates except the Non-Sufficient Funds (NSF) Charge, the New Customer
193 Charge, and the Availability Charge.

194
195 After reviewing UI's current rates for its existing 21 Commission regulated
196 water/sewer utilities, I found that UI's highest NSF Charge for these
197 utilities is \$10.00 and the highest New Customer Charge is \$15.00.
198 Accordingly, I recommend a \$10.00 NSF Charge and a \$15.00 New
199 Customer Charge, in lieu of WUI's proposed NSF and New Customer
200 Charges of \$25.00 and \$25.00, respectively (ELN Exhibit 3.00), unless
201 WUI is able to provide further documentation justifying its proposed NSF
202 and New Customer Charges.

203
204 In addition, after reviewing the current water and sewer rates charged by
205 WVMHA, I do not recommend adopting the \$20.00 per month Availability
206 Charge to customers, who have purchased lots, but have not yet built on
207 them. In my opinion, the availability charge appears unreasonable and
208 not in the public interest.

210 **Q. Can you explain in further detail why you do not agree with the**
211 **availability charge?**

212 **A. Yes, I can. In WUSC's original 1996 certificate proceeding, the developer**
213 **testified that build-out for the service area's 716 potential customers**
214 **would be complete in ten years (Commission Order in Docket 96-0549**
215 **and 96-0550, Consolidated, page 2). However, based upon Ms. Nicholas'**
216 **response to Staff Data Request REP-1.12, WUI expects to serve an**
217 **average of 118 customers the first year after the merger. In my opinion,**
218 **the developer chose to construct water and sewer facilities to meet the**
219 **demands of all 716 customers, allowing for the ability to have freedom of**
220 **selling and developing a large area at random.**

221
222 Based upon Ms. Nicholas' response to Staff Data Request REP-1.06, it
223 appears that the developer advanced and/or contributed approximately
224 45% of the funds for the construction of the water and sewer facilities.

225 This process for advancing funds and/or contributions correctly places the
226 risk for the development on the developer rather than on the utility and it's
227 customers, particularly in cases of slow or even failed development. By
228 allowing an availability charge, the Commission shifts the risk of slow or
229 failed development from the developer to the utility's customers.

231 In addition, since the developer contributed approximately 45% in mains
232 and plant facilities to serve the Westlake service area, allowing the
233 availability charge will not only permit the utility to receive entitled
234 revenues for providing water and sewer services to the area, but might
235 also allow additional revenues to be collected from the portion of the
236 mains which the developer contributed.

237
238 Ms. Nicholas' response to Staff Data Request REP-1.12 also suggests
239 that excluding the availability charge from Miscellaneous Charges, as
240 shown on ELN Exhibit 3.00, will not have any adverse financial impact on
241 WUI's revenue. Ms. Nicholas' response to Staff Data Request REP-1.12,
242 indicates that an average of two customers may be affected by the
243 availability charge in the first and the fifth years of operation. At \$20.00
244 per month, revenue lost from excluding the availability charge would only
245 amount to \$480.00 per year.

246
247 **Q. What rates are you proposing for WUI?**

248 **A.** Based upon the current WVMHA's rates and my proposed changes
249 discussed above, I recommend that WUI be authorized to file the rate
250 sheets as shown in my Exhibits 2.01, 2.02, 2.03, and 2.04.

252 **Q. Do you agree with WUI's proposed Rules, Regulations, and**
253 **Conditions of Service?**

254 **A. The Sewer and Water Rules, Regulations, and Conditions of Service**
255 presented by WUI as ELN Exhibits 4.00 and 5.00, respectively, were
256 developed after detailed discussions between Staff and WUI. Since Staff
257 has already resolved with WUI the issues concerning the Rules,
258 Regulations, and Conditions of Service, Staff has no further objections at
259 this time. I recommend that WUI be authorized to file the Rules,
260 Regulations, and Conditions of Service shown in ELN Exhibits 4.00 and
261 5.00.

262
263 **Q. Do you agree with WUSC's request, under Section 8-508 of the Act,**
264 **to discontinue public utility service and cancel its Certificate**
265 **coupled with WUI's request, under Section 8-406 of the Act, for a**
266 **Certificate to operate and maintain the water and sewer system?**

267 **A. Yes, I do. With the cancellation of WUSC's Certificate, there is a need**
268 and demand for public utility water and sanitary sewer service in WUSC's
269 service area. Given WUI's affiliation with UI and WSC, as discussed
270 above, WUI has established that it is capable of efficiently managing and
271 supervising these services and that it has the ability to provide adequate,

272 reliable, efficient, and least-cost services for both the existing water and
273 sewer facilities and any future construction.

274

275 **Q. Based on the review above, do you oppose the reorganization**
276 **between WUI and WUSC?**

277 A. No, based on my review above, I do not oppose the reorganization.

278

279 **Q. Does this conclude your direct testimony?**

280 A. Yes, it does.

ILL. C. C. No. 1Section No. 3

Original Title Page

Westlake Utilities, Inc.
(Name of Company)

SCHEDULE OF RATES

FOR

SEWER SERVICE

Applying to the following Territory:

Westlake Village Subdivision In Winnebago County, Illinois

Issued _____
Month Day YearEffective _____
Month Day YearIssued By _____
Name of Officer Title_____
Address of Officer

ILL. C. C. No. 1Section No. 4

Original Title Page

Westlake Utilities, Inc.

(Name of Company)

SCHEDULE OF RATES

FOR

WATER SERVICE

Applying to the following Territory:

Westlake Village Subdivision In Winnebago County, Illinois

Issued _____
Month Day YearEffective _____
Month Day YearIssued By _____
Name of Officer Title_____
Address of Officer

Westlake Utilities, Inc.

ILL. C. C. No. 1

(Name of Company)

Section No. 4Sheet No. 1Applies To Westlake Village Subdivision Illinois
(Name of City)Water SERVICERates for Water Service

<u>Charge</u>	<u>Monthly Rates</u>
Service Charge	\$6.00
Usage Charge	\$3.25 per 1,000 gallons

Miscellaneous Charges

<u>Charge</u>	<u>Rates</u>
New Customer Charge	\$15.00
NSF Charge	\$10.00
Temporary Disconnect Charge	\$15.00
One Time Building Contractor Charge	\$25.00

Late Payment Charge

An additional charge amounting to one and one-half percent (1½%) per month will be added to all bills for service under the foregoing schedule not paid within twenty-one days of the date of the bill.

Issued _____
Month Day YearEffective _____
Month Day YearIssued By _____
Name of Officer Title_____
Address of Officer